

Message Text

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44

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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TO SECSTATE WASHDC 8615

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E.O. 11652: N/A

TAGS:

SUBJECT: CANADIAN DOLLAR NEARS PARITY WITH U.S. DOLLAR

POUCHED TO ALL CONSULS IN CANADA

1. JANUARY 22 U.S. DOLLAR CLOSING RATE OF EXCHANGE IN CANADIAN FUNDS WAS C\$1.0008, PUTTING CANADIAN DOLLAR CLOSEST TO PAR SINCE FEBRUARY 1975, WHEN AVERAGE DAILY CLOSING WAS C\$1.0002. (BY AUGUST 1975, CANADIAN DOLLAR HAD WEAKENED TO WHERE AVERAGE DAILY CLOSING OF U.S. DOLLAR WAS C\$1.0351.)

2. MANY MARKET ANALYSTS POINT OT LARGE PROVINCIAL BORROWINGS IN U.S. AND EURO-DOLLAR MARKETS AND SPREAD BETWEEN CANADIAN AND U.S. SHORT-TERM INTEREST RATE AS PRIMARY REASONS FOR STRENGTH OF CANADIAN DOLLAR. RECENT UNCONFIRMED REPORTS TELL OF HYDRO QUEBEC INCREASING ITS BOND ISSUE IN FOREIGN MARKETS TO C\$1.5 BILLION. ACCORDING TO BROKERAGE FIRM WOOD GUNDY, FOLLOWING INTEREST RATES OBTAINED DURING WEEK OF JANUARY 15:

| | |
|--------|------|
| U.S. | 6.00 |
| CANADA | 9.00 |

PRIME RATE

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U.S. 7.00
CANADA 9.75

SHORT-TERM PAPER (3 MONTH)

U.S. 5.25
CANADA 9.25

TREASURY BILLS (AVERAGE TENDER- 3 MONTH)

U.S. 4.83
CANADA 8.57

3. ALTHOUGH BANK OF CANADA GOVERNOR G.K. BOUEY HAS SAID "ACCEPTABLE" MONEY SUPPLY GROWTH RATE WOULD BE IN 10 TO 15 PERCENT RANGE, IN LINE WITH GOC ANTI-INFLATION PROGRAM, ACTUAL M1 GROWTH FOR 1975 WAS ABOUT 23 PERCENT AND PERCENTAGE INCREASE DURING 13-WEEK PERIOD ENDING JANUARY 14 WAS 29.4 PERCENT. (HOWEVER, DURING PAST MONTH M1 HAS DECLINED SOMEWHAT FROM C\$18,582 MILLION ON DECEMBER 10, 1965 TO C\$18,492 MILLION ON JANUARY 14.)

4. MONETARY SPECIALISTS ARE STILL UNCERTAIN AS TO SHORT-TERM FUTURE EXCHANGE RATES WITH SOME PREDICTING SLIGHT RISE OF CANADIAN DOLLAR ABOVE PAR WITH U.S. DOLLAR BEFORE WEAKENING IN MID YEAR BY TWO TO TWO AND ONE-HALF PERCENTAGE POINTS. THESE ANALYSTS EXPECT SMALLER BORROWINGS BY PROVINCES IN FOREIGN MARKETS AND NARROWING OF POINT SPREAD BETWEEN U.S. AND CANADIAN INTEREST RATES. MOST HEDGE FORECASTS, HOWEVER, BY QUOTING BOUEY ON MONETARY POLICY WHICH COULD KEEP INTEREST RATES NEAR CURRENT LEVELS AND MITIGATE EXPECTED DROP IN EXCHANGE VALUES.

5. COMMENT: EMBOFF HAS TALKED WITH BANK OF CANADA INTERNATIONAL OFFICERS AND REGIONAL MANAGER OF BANK OF NOVA SCOTIA WHO CONFIRMED CONSENSUS VIEWS OF OTHER MONEY ANALYSTS ON REASONS FOR RECENT STRENGTH OF CANADIAN DOLLAR. THEY DECLINED HAZARD A GUESS ON EXCHANGE RATE MOVEMENT DURING NEXT SIX MONTHS, BUT SOCITIA BANK MANAGER SAID HE EXPECTED CANADIAN INTEREST RATES TO DECLINE SOMEWHAT. HE, LIKE WOOD BUNDY
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ANALYSTS, THOUGHT THWK ANNOUNCED B. OF C. MONETARY POLICY AND EXPECTED PICKUP IN CANADIAN ECONOMY WOULD, HOWEVER, CONTINUE EXERT UPWARD PRESSURE ON RATES.

6. ECONOMIC COLUMNIST DON MCGILLIVRAY, WRITING IN MONTREAL GAZETTE OF JANUARY 21, AND A.E. AMES AND CO. MARKET BULLETIN OF JANUARY 16, AMONG OTHERS, VOICE CONCERN ABOUT CANADA'S "DEARER" DOLLAR. ACCORDING TO

MCGILLIVRAY, "AN OVERVALUED DOLLAR WIDENS CANADA'S
TRADE DEFICIT", AND AMES POINTED OUT THAT "CANADA'S
STODGY GRWOTH AND HER UNEMPLOYMENT MAKE A DEARER
DOLLAR UNDESIRABLE."

7. COMPARED TO MONEY SUPPLY GROWTH RATE OF ABOUT
23 PERCENT IN 1975 (EVEN WITH STAGNANT ECONOMY),
BOUEY'S ANNOUNCED "TARGET" OF 10 TO 15 PERCENT GROWTH
IS SOMEWHAT RESTRICTIVE. HOWEVER, IF TRADE DEFICIT
WIDENS, ECONOMIC RECOVERY PUTS STRAIN ON CANADIAN
CAPITAL MARKETS, AND EVEN GOC IS FORCED TO COVER
INCREASING BUDGET DEFICITS THROUGH BORROWING ABROAD
AS SOME ANALYSTS HAVE PREDICTED, BOUEY MAY HAVE TO
RELAX "TIGHT" MONEY POLICY.
JOHNSON

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